

Workers' Compensation Fraud Report

For the Quarter Ending March 31, 2005 (3rd Qtr. FY 2005)

In spring 2004, the Legislature passed a supplemental budget that authorized the Department of Labor and Industries (L&I) to spend an additional \$798,000 to expand its efforts to combat fraud and abuse in the State Fund workers' compensation system. With the authorization came a requirement that in Fiscal Year 2005 the agency file quarterly reports to the Office of Financial Management and the Legislature, explaining how the money was spent and the return on that investment. This is the third of those reports, covering January, February and March of 2005. The 4th quarter report will be published in August.

As predicted in the previous report, the return on investment (ROI) decreased slightly in the 3rd quarter as staff went through testing and training on how to use the agency's new accounts-receivable collection computer system. The lower return on investment is expected to continue through the end of the fiscal year. Once the system is complete and staff is trained, collections will improve.

In the 3rd quarter of FY 2005 the program spent \$3,340,400 on salaries, benefits and other expenses. During that period, \$27,232,480 in delinquent employer premiums and improper payments to providers and workers was recovered. In addition, there was \$1,151,501 in cost avoidance. That equates to an 8.5 to 1 return on investment, down slightly from the 9.1 to 1 ROI in the 2nd quarter.

Highlighted Activity

- Working with the Office of Inspector General, an L&I investigation led to a guilty plea and three years in federal prison for a man who created a company for the sole purpose of filing false claims for workers' compensation and employment security benefits. In addition to the prison sentence, the man has been ordered to repay Labor and Industries \$127,444 in benefits, interest and penalties.
- Based on evidence collected in an L&I investigation, a massage therapist plead guilty to First Degree Theft for falsifying doctors' signatures authorizing treatment. He was sentenced to 30 days in custody and must repay about \$100,000 in payments and penalties owed to L&I.
- An L&I investigation was turned over to the Pierce County Prosecutor for criminal charges against an interpreter who billed L&I for services he didn't provide. He owes nearly \$564,000 in payments, penalties and interest.
- L&I investigators are working with various police agencies to build a fraud case against a woman who filed 16 false workers' compensation claims under various names in five Washington counties.
- L&I identified and collected over \$109,000 from a siding contractor that had previously gone unreported. In addition, the Department of Revenue has charged him with theft for filing false records to avoid paying \$65,000 in sales taxes.

Outreach & education

The program continued to provide training to contractors on independent contractors and prime contractor liability for premiums. Two training sessions were held in the 3rd quarter – one in Tumwater, the other in Seattle. We published a fact sheet on prime contractor liability and met with executives of Rayonier Inc. to explain prime contractor liability.

Fraud cases prosecuted/charged/convicted/sentenced

Number of cases referred to prosecution7
Number of cases charged4
Number of convictions.....1
Number sentenced.....1

Fraud prevention by the numbers

(Collections numbers listed below include fraud activity, recovery of overpayments and delinquent premiums.)

Worker:

- Administrative fraud orders issued.....43
- Assessments.....\$717,389
- Claims overpayment collections....\$1,911,587
- Cost avoidance.....\$1,050,598

Provider

- Assessments.....\$332,566
- Collections.....\$20,893
- Cost avoidance.....\$100,903

Employer

- Assessments.....\$2,052,668
- Collections.....\$25.3 million

Return on Investment Schedule (3rd quarter FY 2005)

Operating Costs	Assessments	Cost Avoidance	Recovery/collection	Return on Inv.
\$3,340,400	\$3,102,623	\$1,151,501	\$27,232,480	8.5 to 1

Assessments: Billings for overpayments, improper billings and for underreported premium payments

Cost Avoidance: Estimated one-year future outlay had payments and benefits not ended as a result of L&I action

Recovery/collections: Money recovered as a result of L&I's collection activity

Return on investment: A comparison of the operating costs to the dollars recovered/collected and avoided